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A Plan for Fiscal Responsibility:

Strengthening Higher Education and Protecting Retirement Security on Behalf of Students, Workers, Retirees, & Taxpayers

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Executive Summary

As part of the budget process, the Education & the Workforce Committee has been tasked with finding $18.1 billion in net savings (including the cost of paying for any Hurricane-related items) from the direct spending programs within the Committee's jurisdiction. Chairman Boehner has consistently said the Committee would help put forward a responsible budget that cuts wasteful spending and promotes fiscal responsibility.

To meet its reconciliation target, the Committee has developed proposals on both higher education and pensions that will generate savings to the federal government and provide the Pension Benefit Guaranty Corporation (PBGC) with additional resources. The Committee's plan for reconciliation includes a variety of proposals to generate savings and make federal programs more efficient and more effective.

In many cases, these proposals are similar to comprehensive legislation on both higher education and pensions approved by the Committee in June and July. The Committee's reconciliation proposal generates $14.5 billion in savings from higher education, most notably by further reducing excess subsidies provided to lenders. In addition, the Committee's proposal provides $6.2 billion in additional resources for the PBGC, most notably by giving the agency the discretion to raise flat-rate pension premiums, with certain restrictions. Following is a summary of the main provisions:

- Puts a complete and permanent end to practices that have allowed some lenders to collect a minimum 9.5 percent rate of return on some student loans.
- Increases risk sharing by reducing the insurance rates provided to lenders in cases of loan default and increasing lender-paid fees.
- Reduces collection costs to encourage greater efficiency in default collections.
- Further reduces subsidies for lenders that primarily provide consolidation loans.
- Gives consolidation loan borrowers a choice between a variable and fixed interest rate.
- Maintains flexibility for borrowers through a fiscally sound interest rate structure.
- Increases student aid program accountability by making the 458 administrative account discretionary, similar to all other administrative accounts within the Department of Education.
- Reduces loan fees for students and increases loan limits.
- Increases flat-rate premiums from $19 to $30 per participant beginning in 2006.
- Gives the PBGC discretion to increase flat-rate premiums up to 20 percent annually and allows Congress to disapprove the increase in an up-or-down vote each year.
- Establishes a $1,250 per participant premium paid for three consecutive years by companies that terminate their plans through bankruptcy, to be paid once companies emerge from bankruptcy.

Taken as a whole, these proposals will meet the Committee's reconciliation target and help put federal student loan programs and the PBGC on a more stable financial foundation so they can serve students, workers, and retirees well into the future. Just as important, these reforms also serve the long-term interests of American taxpayers.

Introduction

In the 109th Congress, the House Education & the Workforce Committee has focused on an ambitious agenda aimed at enhancing security, freedom, and prosperity for American families in a changing economy. From expanding college access for low- and middle-income students to reforming outdated pension laws, the Committee has worked with Republicans and Democrats, as well as the Bush Administration, to address issues critical for the future of the nation.

Just as important, the Committee has focused on examining how taxpayers' money is spent. Out-of-control federal spending is a threat to all Americans, from students and families to workers and retirees, and Congress has a responsibility to cut wasteful spending and make federal programs more effective and efficient on behalf of American taxpayers.

In early 2005, the House and Senate reached a budget agreement to help curb the runaway cost of government. Making fiscal discipline a top priority has taken on an even greater importance this year because of the devastation caused by Hurricanes Katrina and Rita. Congress should cut federal spending to help offset the ongoing hurricane recovery and rebuilding effort, and the Committee has worked to help put forward a responsible budget that helps accomplish that goal.

As part of that effort, Education & the Workforce Committee Chairman John Boehner (R-OH), along with other Committee Republicans, introduced the *Setting Priorities in Spending Act* (H.R. 4018) to repeal and eliminate 14 federal programs that are duplicative or simply unnecessary – an important first step in this process. These programs cost taxpayers $247 million last year alone. Despite their dubious merits, Congress has continued to fund these programs on an annual basis.

As part of the budget reconciliation process, the Committee has developed comprehensive reforms that will expand college access for low- and middle-income students while simultaneously generating savings for taxpayers by eliminating program waste and inefficiency, trimming excess subsidies paid to lenders, and placing the aid programs on a more stable financial foundation to ensure their long-term viability and success for future generations of American students. These reforms are accompanied by proposals to strengthen student aid programs and expand student benefits, including reducing student loan fees, protecting borrowers' credit, easing the financial aid process, and providing greater flexibility within the loan programs.

Moreover, while Congress is at work on more comprehensive reforms to strengthen the worker pension system, it remains clear that strengthening the financial condition of the Pension Benefit Guaranty Corporation (PBGC) is a priority. Congress has not raised the premiums employers pay to the PBGC since 1991, so the Committee is proposing a reasonable premium increase that will help strengthen the financial condition of the agency immediately. Taken as a whole, these proposals will help put federal student loan programs and the PBGC on a more stable financial foundation so they can serve students, workers, and retirees well into the future. Just as important, these reforms also serve the long-term interests of American taxpayers.

While Republicans work to exercise spending restraint and fiscal responsibility, there has been little desire from Democrats to do the same. Democrats call for fiscal responsibility but they have no plan to accomplish that goal. They complain about budget deficits but don't want to eliminate any federal programs. They talk of spending restraint but then propose billion dollar new programs without paying for them. And they call for fiscal discipline yet propose tax increases that punish working families. That's not leadership. Is it any surprise that the American people wonder what the Democrat Party stands for?

Part One: Putting Federal Student Aid Programs on a Strong Financial Foundation for Students & Taxpayers

Introduction

Since 1965, the federal government has invested hundreds of billions of dollars in higher education on the premise that all students, regardless of financial circumstance, should have the opportunity to pursue postsecondary education. Four decades later, taxpayers are spending more than ever before on higher education, yet the goal of higher education access remains elusive to far too many American students.

There is no question that an investment in higher education pays dividends for the future. An educated workforce drives economic growth. Scientific breakthroughs keep America on the cutting edge of technological advancement. Children whose parents are college educated are more likely to pursue postsecondary education themselves, continuing the cycle of success and prosperity. Yet despite the clear imperative for an effective and efficient investment in higher education, billions of taxpayer dollars are being wasted through inefficiency and unwise public policy.

After more than a decade of tuition increases that have far outpaced the rate of inflation and growth in family incomes, it has become clear that blindly increasing federal student aid is doing nothing to solve the challenge of skyrocketing college costs. Indeed, the vast increases in federal student aid have coincided with these tuition increases, calling into question whether the current federal investments in higher education may actually be a contributing factor to the college cost explosion that is squeezing the budgets of hard working low- and middle-income American families.

Taxpayers are carrying a tremendous higher education cost burden on many fronts. In addition to the more than $70 billion in direct student aid paid for by taxpayers in FY 2005, American families are subsidizing aid to institutions, research, and numerous federal programs outside the Higher Education Act that award funding to colleges and universities. Moreover, higher education consumes a significant portion of the taxes paid at the state level, and even after all of this, families with children enrolled in college are paying more than ever before for their own tuition bills.

To ensure the federal investment in higher education is made in the best interests of students, families, and taxpayers, the Committee has developed comprehensive reforms that will expand college access for low- and middle-income students while simultaneously generating savings for taxpayers by eliminating program waste and inefficiency, trimming excess subsidies paid to lenders, and placing the aid programs on a more stable financial foundation to ensure their long-term viability and success for future generations of American students.

The Congressional Budget Office estimates these reforms would save between $14 billion and $15 billion over five years, eliminating waste on behalf of taxpayers while expanding student benefits. Taken together, these reforms will help put student aid programs on a strong financial foundation to ensure their stability now and into the future, protecting both students and taxpayers.

Reducing Waste, Increasing Efficiency, and Strengthening Student Benefits

Republicans have proposed comprehensive reforms to the Higher Education Act that will expand college access for low- and middle-income students and strengthen the federal student aid programs to benefit students today and into the future.

Putting an End to Excess Subsidies

As the number of Americans pursuing postsecondary education has grown and college costs have continued to rise, the student loan programs have grown significantly. With that growth, student loan providers have been able to improve program efficiency while improving services to borrowers. By investing in technology and refining programs and services for students, the loan programs operate more efficiently today than ever before. Republicans believe these improvements in the student loan programs can translate into savings for taxpayers while maintaining the same benefits and services for students.

The Committee has identified several areas in which student loan providers are collecting subsidies higher than what is needed to provide a strong loan program for students. Specifically, the proposal puts a complete and permanent end to practices that have allowed some lenders to collect a minimum 9.5 percent rate of return on some student loans. These 9.5 percent subsidies have grown in recent years because of administrative actions taken by the Clinton Administration that allowed lenders to expand the number of loans that qualified for the excess subsidies.

In addition, Republicans are eliminating lender subsidies known as floor income – income lenders may collect that is higher than their guaranteed minimum rate of return. Under the proposal, lenders will never be able to earn more than the minimum return; any excess income generated when the borrower rate is higher than the lender minimum would be returned to the federal government where it could be better used on behalf of students.

Giving Borrowers a Choice

Under current law, borrowers who consolidate their student loans in order to make a single monthly payment and, when needed, to extend the repayment term, are unable to choose the interest rate that will meet their needs. Borrowers are forced to lock in the prevailing interest rate, regardless of whether rates may go down in the future. This inflexible structure has negative consequences for taxpayers as well. By locking in one-year interest rates for up to 30 years, taxpayers take on significant financial risk. The billions that stand to be consumed by the consolidation loan program are funds that will not be available for future students.

The Committee is offering consolidation loan borrowers a choice of interest rates so that individual borrowers can choose the rate that will be right for them and taxpayers will have greater security about long-term program costs. For the first time ever, borrowers will be able to choose between keeping their consolidation loan at the same variable interest rate used for their student loans or choosing a new fixed rate that reflects long-term financing structures. Unlike other consumer loan products like mortgages – which charge a premium of about two percent to lock in the interest rate – student loan borrowers will have the opportunity to lock in a rate just one percent above the single-year variable rate in place when the loans are consolidated. Along with a one-time offset fee of just one percent, consolidation borrowers will be able to extend their loans for up to 30 years.

Strengthening Risk-Sharing on Behalf of Taxpayers

The federal student loan programs are a unique public-private partnership in which the federal government's loan guarantee leverages billions of dollars each year to help students finance a college education. As the loan programs have grown in size, they have also grown increasingly efficient. To allow taxpayers to benefit from greater program efficiency, the Committee proposal increases risk-sharing for student loan providers. This will also improve program accountability, since it is in the interests of both loan providers and taxpayers to limit student loan defaults and limit program costs.

Specifically, the proposal reduces the insurance and reinsurance rates provided to lenders and guarantors, and lowers the percentage guarantors and collection agencies can keep on payments of defaulted loans. These reforms will continue to encourage lenders and guarantors to improve default aversion programs and work with borrowers to prevent default before it happens. Republicans will also modify the so-called “exceptional performer” designation, which provides expedited processing and a higher rate of insurance to lenders and servicers for performance. The proposal also increases the lender-paid origination fee on student loans from 0.5 percent to one percent, and increases the lender-paid portfolio fee on consolidation loans from 1.05 percent to 1.30 percent annually for those lenders primarily offering consolidation loans. This will generate significant savings for taxpayers by asking lenders to provide an upfront contribution in exchange for the benefit of a government guarantee against loan default.

Implementing a Financially Sound Interest Rate Structure

Since 1992, the federal student loan programs have operated on a variable interest rate structure that fluctuates with the market. Because the underlying financing mechanisms are market-based, the variable rate structure stabilizes the student loan programs and reduces financial risk for taxpayers. The Committee will maintain the variable rate structure for the federal student loan programs, ensuring that students benefit from low, market-based rates while still having the protection of an 8.25 percent interest rate cap.

Encouraging Efficient and Effective Default Prevention and Protection

Thanks to strong program safeguards and improved performance by lenders and servicers, federal student loan default rates are at their lowest level in history – about 4.5 percent. Prevention of loan default is one of the most important ways to strengthen loan programs, reduce waste, and protect borrowers from mistakes that may jeopardize their financial future. When loans do go into default, it’s important to have a strong default protection system in place to shoulder the costs so taxpayers aren’t forced to bear the burden.

To protect taxpayers, Republicans have proposed strengthening default prevention and protection when defaults do occur. The proposal encourages lenders and guarantors to work with borrowers in danger of default to rehabilitate the loan rather than simply consolidating the loan, which makes future default more likely. In addition, the proposal implements a mandatory federal default fee of one percent on all student loans. The default fees are placed in federal reserve funds, which are used to reimburse defaulted loans and remain critical to the health and stability of the student loan program. Current practices that allow guarantors to waive the default fees have placed federal reserve funds in serious financial jeopardy, weakening default protection and threatening taxpayers with the cost of loan defaults.

Adding Accountability to Student Aid Administration

The proposal will inject greater accountability into the administration of federal student aid programs by making portions of the student aid administrative account, also known as the 458 account, subject to the annual discretionary appropriations process. By making the portions of the account used for administrative purposes for the Federal Family Education Loan program (FFEL), the Direct Loan program (DL), and the Pell Grant program – among others – discretionary, Congress will have greater opportunities to ensure programs are running efficiently and effectively. The 458 account is the only purely administrative account at the U.S. Department of Education that is funded with mandatory, or entitlement spending. By funding this account with mandatory funds, it significantly hampers the ability of Congress to monitor and strengthen administrative activities. Portions of the 458 account that support loan guarantors' operating funds will remain mandatory to ensure funds remain available for default aversion programs that provide borrowers in both the FFEL and DL loan programs with education and help keep students out of default.

Reducing Student Loan Fees

Student loan borrowers today pay up to four percent in loan fees, with a three percent origination fee and the one percent default fee that is charged to some borrowers. The Committee has coupled the stronger default fee structure with a reduction in origination fees so that student borrowers will see an overall reduction in total loan fees to just one percent. That's a 75 percent reduction in loan fees over the five year term of the legislation, a significant achievement. The proposal also ensures borrowers in both the federally-guaranteed and the Direct Loan programs will be treated equally, with both programs seeing a reduction to just one percent in loan fees.

Expanding Student Loan Borrowing Opportunities

To give students additional borrowing opportunities, the Committee is proposing updates to the amounts first and second year college students may borrow. Loan limits for first-year students were last adjusted in 1986, and for second-year students in 1992. Under the proposal, first-year student limits will increase from $2,625 to $3,500 and second-year student limits will increase from $3,500 to $4,500. However, aggregate undergraduate borrowing limits will remain unchanged at $23,000, ensuring students are not saddled with unnecessarily high debt loads. Graduate unsubsidized annual borrowing limits will increase from $10,000 to $12,000.

Protecting Borrowers' Credit, Improving Consumer Awareness

For many students and graduates, consecutive on-time monthly student loan payments can help to build a strong credit history, helping borrowers qualify for lower-cost financing options, improved benefits, and even a first home mortgage. The proposal will require lenders to report to all national credit bureaus to ensure students and graduates will be able to take full advantage of the good credit history they have earned through repayment of their federal student loans.

In addition, Republicans improve consumer protections by eliminating unfair rules that limit options for consolidation borrowers and providing borrowers more information about their loans. The proposal will repeal the "single holder" rule, which limits consumers' ability to consolidate with the lender of their choice by requiring consumers who have all of their loans held by a single lender to consolidate with that lender, even if they could obtain better terms and service elsewhere. The plan will also require that borrowers be provided with comprehensive information about total interest they will be paying, the repayment terms they are agreeing to, the benefits they will be eligible for, and other important consumer disclosures. To help borrowers stay out of default, the proposal requires that borrowers be given access to financial and economic educational materials.

Easing the Financial Aid Process

The proposal will make it easier for the neediest students to participate in federal student aid programs by simplifying and expanding eligibility for use of the "simplified needs test" to determine how much aid a family qualifies to receive. In addition, a special effort will be made to notify students and parents who qualify for free lunch, food stamps, or other means-tested programs of their potential eligibility for a maximum Pell Grant. Republicans have worked to implement these and other recommendations made by the Advisory Committee on Student Financial Assistance to ease the financial aid process. This includes a provision that will increase the amount a dependent student can earn without negatively impacting his or her student aid eligibility.

As originally proposed in the bipartisan FED UP initiative, the proposal also extends incentives for institutions to keep their student loan default rates low and allow students to receive loan funds faster. Schools with default rates under 10 percent for three consecutive years will be permitted to waive burdensome federal rules, including a rule requiring them to wait 30 days before providing loans to first-time borrowers who are first-year students. The proposal also allows active duty military personnel to be considered independent for financial aid purposes and clarifies provisions that limit financial aid for past drug offenders.

Providing Greater Loan Flexibility

In addition to new interest rate flexibility within the consolidation loan programs, the proposal will also help borrowers who may not want to consolidate but who may be struggling to make their monthly loan payments. By creating a new interest-only repayment option, the proposal provides greater flexibility for borrowers who are having trouble meeting their student loan repayment obligations. This new benefit comes on top of existing deferment and forbearance opportunities for borrowers who return to school or need additional help in repaying their loans.

Democrats Distort the Facts, Propose Reckless Fiscal Policies that Threaten the Long-Term Stability of the Federal Student Loan Programs

Opponents of comprehensive higher education reforms have manufactured excuse after excuse to avoid bringing greater efficiency to the federal student loan programs. With utter disregard for the interests of American taxpayers, Democrats seem unwilling to eliminate even the most wasteful spending on higher education programs. Worse still, Democrats are advocating fiscally irresponsible policies that threaten to destabilize student loan programs and place taxpayers on the hook for billions in future subsidies financed at unrealistic terms.

Ignoring the long-term health and stability of the federal student aid programs – and the federal budget as a whole – could have devastating consequences for future students. Federal subsidies are being promised away today, and the students of tomorrow may be left holding the bag. College students are also taxpayers, and out of control federal spending is a threat to every student and family in America. Students deserve efficient, effective programs that will meet their higher education needs while protecting their interests as taxpayers.

Republicans are proposing common sense solutions that will increase student benefits and expand college access without expanding the budget deficit. As the number of American students pursing higher education continues to grow, the federal investment will grow with it. It is imperative that Congress ensure that investment will be made wisely.

Unfortunately, Democrats and reform opponents seem more committed to obstructionism and scare tactics than they are in reforming higher education programs on behalf of students. More than 16 million students are enrolled in higher education in America, and they deserve a meaningful debate about how Congress can strengthen opportunities and ensure the long-term viability and success of the federal student aid programs.

Some reform opponents have even gone so far as to claim that the Committee's proposal would "result in the typical student paying $5,800 more for college loans." The $5,800 figure is misleading and unfair to students who deserve better than scare tactics – the numbers, when broken down, demonstrate that the Republican proposal will expand college access for low- and middle-income students while simultaneously generating savings for taxpayers by eliminating program waste and inefficiency, trimming excess subsidies paid to lenders, and placing student aid programs on a more stable financial foundation.

Following is a breakdown of the fictitious claims about reforms to strengthen the federal student loan programs.

CLAIM	REALITY
"Keeps interest rate at 8.25 percent, going back on a Congressional promise to lower interest rates … *as much as $2,600 in increased interest payments.*"	**Current student loan interest rates – the rates protected by Republicans – are just 4.7 percent for students in school; not the 8.25 percent Democrats claim.** The so-called promise for 6.8 percent interest rates was a proposal to move the student loan programs to a fixed 6.8 percent. Under the fixed 6.8 percent interest rate, *student borrowers would see their interest rates jump by more than two percentage points, from 4.7 percent to 6.8 percent*. **The fixed 6.8 percent interest rate would cost student loan borrowers an extra $219 this year alone compared to the 4.7 percent variable rate.** Instead of imposing an arbitrary fixed 6.8 percent interest rate that would hike costs for borrowers, the Republican plan protects variable rates for students. *In the last several years, borrowers would have saved money under the Republican variable interest rate structure.* • Since 1997, borrowers with a variable rate would have paid an average interest rate of less than 6.8 percent on loans with a standard 10-year repayment. • For loans with a 20-year repayment, borrowers would have paid an average interest rate of less than 6.8 percent going all the way back to 1991.
"Increases the cost of consolidating for students in school … *$985 in increased interest payments."*	**Under the Republican plan, borrowers will still be able to consolidate their loans at a reduced rate in the six month "grace period" following graduation.** That 0.6 percent discount continues to be available for consolidation loan borrowers. The bill does eliminate the loophole that allowed in-school consolidation because consolidation was never intended for students still in school. In fact, allowing in-school consolidation could actually harm student borrowers because they may lose future benefits such as the six month grace period, loan forgiveness or cancellation opportunities or the alternate interest rate used in the Perkins Loan program.

"Hikes the fixed rate in consolidation and charges borrowers a fee to consolidate … Big student loan companies have worked to eliminate the fixed rate option entirely since they make less money on these loans and don't like competing with smaller companies for borrowers … *$1,777 in increased loan costs."*	**Student loan companies would actually have earned more money if Republicans had not pressed to reform the consolidation loan program and reduce excess lender subsidies.** With a fixed 6.8 percent interest rate, borrowers would have paid lenders more than the minimum guarantees under the law. Instead, Republicans have eliminated opportunities for lenders to collect more than the minimum rate of return, and preserved the variable rate structure so borrowers have access to lower, market-based rates. The one percent consolidation fee does not go to lenders; it is paid to the federal government to help offset a small portion of the cost taxpayers take on to provide borrowers a fixed interest rate for up to 30 years. On the $17,500 loan Democrats repeatedly reference, that one percent offset fee equals a one-time fee of just $175 for the benefit of a 30-year fixed-rate loan made available and guaranteed by the federal government.
"Forces student borrowers to pay one percent guaranty fee … *$175 dollars to pay the guaranty fee."*	**The one percent default fee is charged in conjunction with a reduction in loan origination fees.** By requiring guaranty agencies to collect the one percent fee, taxpayers will be protected against student loan defaults. At the same time, borrowers will see a 75 percent reduction in total loan fees – from up to four percent charged today down to just one percent. **Republicans save students $525 on a $17,500 loan.**
"Eliminates on-time repayment incentives in the Direct Loan Program … Currently, the Direct Loan Program provides a rebate of 1.5 percent of a borrower's loan balance for borrowers making 12 on-time loan payments *… $263 in increased loan payments."*	**The 1.5 percent repayment rebate provides no benefit to the vast majority of student loan borrowers.** About 75 percent of all student loan borrowers participate in the private-sector based Federal Family Education Loan program, in which the Department of Education does not provide this so-called repayment benefit. In addition, less than one quarter of Direct Loan borrowers who may be eligible for the repayment rebate ever actually see the savings. That's because most borrowers don't make the needed 12 on-time payments. When that happens, borrowers have the 1.5 percent fee added back onto their loan balance. **Rather than an uneven, unfair rebate that benefits very few students, Republicans propose to reduce total loan fees for all students to just one percent.**

When broken down, opponents' claims fall flat. The Committee is proposing common sense reforms that will benefit students and taxpayers alike by expanding college access for low- and middle-income students and ensuring taxpayer dollars are well spent.

Part Two: Strengthening the Financial Condition of the Pension Benefit Guaranty Corporation on Behalf of Workers, Retirees, & Taxpayers

Introduction

After nearly a dozen hearings over two years on the future of the defined benefit pension system, it became clear to the Committee that a piecemeal approach to reform would not improve the overall health of the defined benefit pension system. Rather, a broader effort that addresses all outdated federal pension rules in a comprehensive package is the most responsible and effective way to ensure workers and retirees can count on their pension benefits and help put the Pension Benefit Guaranty Corporation (PBGC) on more sound financial footing.

The PBGC is a federal government agency established in 1974 by the Employee Retirement Income Security Act (ERISA). It was created by Congress to assume the liabilities for certain pension benefits for a company's workers and retirees when the plan is terminated and cannot afford to pay all benefits. Currently, it insures private pensions for 44 million people participating in more than 29,000 plans. In 2004, it paid more than $3 billion in benefits to a half million people in some 3,500 plans terminated by financially distressed companies.

On June 30, 2005, the Committee passed the *Pension Protection Act* (H.R. 2830), comprehensive reform legislation that would strengthen the defined benefit pension system and protect the interests of workers, retirees, and taxpayers. Not only would the *Pension Protection Act* put in place new funding requirements to ensure employers properly fund their plans and provide workers with meaningful disclosure about the financial status of their pension plans, but it also would help to protect taxpayers from a possible multi-billion dollar bailout of the PBGC.

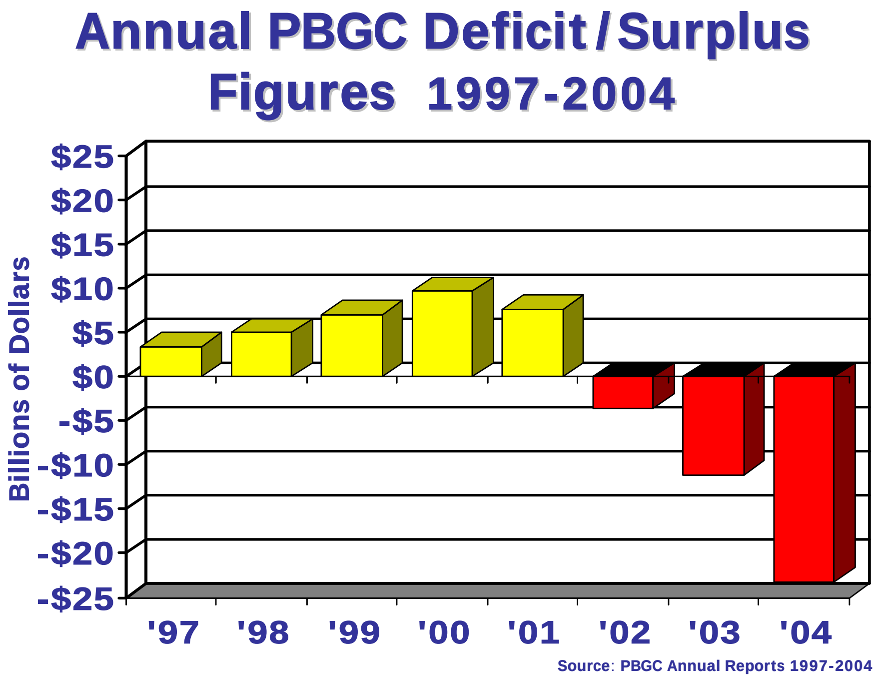
While Congress oversees the PBGC, the agency is funded through regular employer premiums rather than tax dollars. However, when worker pension plans are terminated and the financial burden is placed on the federal government, workers, retirees, and taxpayers all stand to lose. As more companies file for bankruptcy and increase the chance of additional employee pension plans being turned over to the PBGC, it has never been more apparent that the health of the nation's worker pension system is a bottom line concern for American taxpayers.

Implications for American Taxpayers

Referring to the PBGC in an October 21, 2005 *Financial Times* news article, "Warning on risk of bailout at US pension insurer," Nancy Cohen plainly reports, "The U.S. is heading towards another bailout of a government-backed insurer similar to that of the savings and loan crisis in the 1980s."

Though there are clear differences between the S&L bailout of the 1980s and the events that have led to the current pension crisis, Congress has a responsibility to ensure the end result – taxpayers being left on the hook for a crisis they didn't create – doesn't repeat itself. Because of more and more pension plan terminations, the PBGC now has an operating deficit that exceeds $23 billion, making the prospect of a taxpayer bailout of the PBGC loom larger with each plan it takes over. This fact – and its potentially dire consequences for taxpayers – has been taken into careful consideration as the Committee works to meet its budget reconciliation instruction.

Just four years ago, the PBGC operated with an annual surplus. However, the agency's financial health has been on a strikingly rapid decline ever since. The chart below depicts this freefall into deepening deficit.

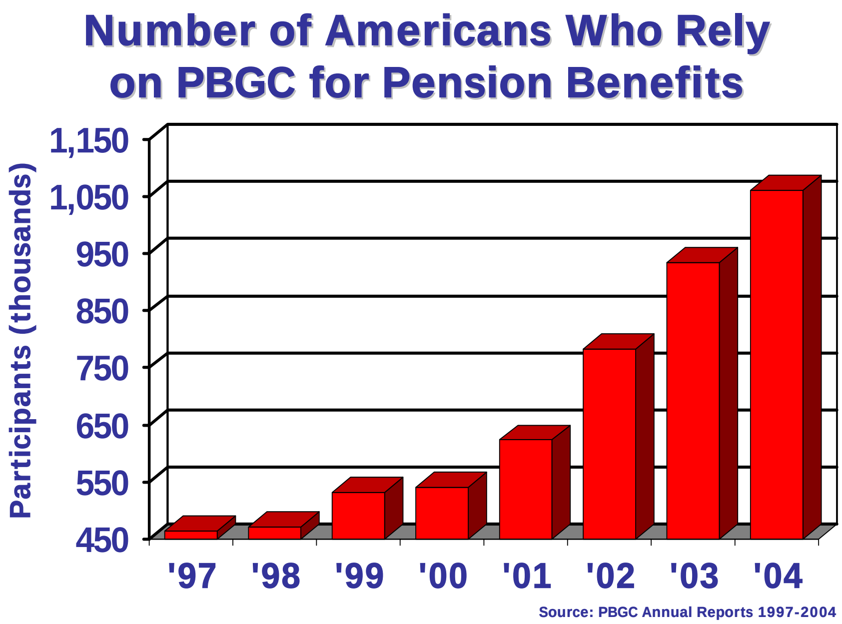


Although the PBGC has enough resources to make benefit payments for the near future, the long-term outlook for the agency is anything but certain. With some $450 billion in pension plan underfunding among financially weak companies looming on the horizon, the PBGC's deficit is expected to grow even further. In relatively short order, the PBGC has gone from a little-known agency among most Americans to one that is now consistently in the headlines – and for good reason. Taxpayers have a major stake in its long-term outlook.

Implications for Workers and Retirees

Thousands of workers and retirees have lost significant benefits when their pensions were terminated and taken over by the PBGC, and their stories serve as a constant reminder about the need to reform a broken system. The health of the PBGC is just as critical to these workers and retirees as it is to taxpayers, which makes it all the more troubling that in January, the Government Accountability Office (GAO) announced that the PBGC remains on its list of "high risk" programs requiring additional federal attention. Though the Committee's chief retirement security goal – to enact comprehensive pension reforms that modernize outdated pension plan funding rules, enhance disclosure for workers, and increase premiums paid to the PBGC responsibly – was established with an eye toward benefiting workers and retirees, so too are the Committee's budget reconciliation actions to place the PBGC on firmer financial ground.

In 2004, the PBGC was responsible for terminated pensions of more than one million people. Just as the previous chart showed a steady spiral into deeper deficit for the PBGC, the chart on the following page shows a similar steady pattern in the number of individuals for whom the PBGC has assumed benefit payment responsibility.



As more Baby Boomers approach retirement, the trend depicted in this chart will undoubtedly continue its steep upward climb. And, there is an expectation that even more pension plans may be terminated in the near future by financially-distressed companies – including some very large companies in mature industries. These two facts make it increasingly clear that the PBGC must be put on a path toward financial stability. If not, those who depend on it most for their current or future retirement security – workers and retirees – will suffer the consequences.

Providing the PBGC with Additional Financial Resources

Two important steps are essential to improving the financial condition of the PBGC and ensuring its long-term solvency: (1) reforming funding rules to ensure pensions are more adequately and consistently funded; and (2) increasing premiums paid by employers to the PBGC in a responsible fashion. The *Pension Protection Act*, which is expected to be voted on by the House later this fall, would take both of these steps. The budget reconciliation process presents an opportunity to accomplish the second of the two.

The Committee's proposal to put the PBGC on a more secure financial foundation is two-pronged. First, it would phase in responsible increases in the flat-rate premiums paid to the agency each year. Second, it would establish employer-paid termination premiums.

If Congress passes comprehensive pension reform that is signed into law by President Bush before the end of the year, those comprehensive reforms (including the premium increases which are part of such a proposal) would take precedence. It is the strong view of the Committee that the benefits of comprehensive reform, which include proposals to strengthen the PBGC, far outweigh the benefits of increases in PBGC premiums alone.

Responsible, Phased-In Increases in Flat-Rate Premiums

Currently, employers pay a flat-rate premium to the PBGC of $19 per year for each plan participant. Congress has not raised these premiums since 1991, so a reasonable increase is both prudent and necessary, and it will help strengthen the financial condition of the PBGC immediately.

The proposal would increase premiums from $19 to $30 annually beginning in 2006, the same of the Bush Administration proposal. The proposal gives the PBGC the discretion to increase these premiums up to 20 percent per year. Should the PBGC exercise this discretion and raise premiums, the proposal reserves for Congress the right to disapprove the increase in a straight up-or-down vote each year. The Congressional Budget Office estimates this plan would provide the PBGC $5.2 billion in additional financial resources over five years.

The plan is a balanced proposal that provides responsible increases in premiums that haven't been raised since 1991, provides the PBGC with the ability to measure its risk each year and judge whether another increase is necessary, all the while reserving for Congress the right to disapprove any additional increase if it is unnecessary or overly burdensome.

Establishment of Termination Premiums

The proposal also establishes a $1,250 per participant premium on companies that have gone through bankruptcy and terminated their pension plans. These termination premiums would be paid for three consecutive years once a company emerges from bankruptcy. The Congressional Budget Office estimates this plan would provide the PBGC an additional $1 billion in financial resources over five years.

House Democrats' Failure on Comprehensive Pension Reform

It is tempting to leave blank any discussion of the House Democrats' efforts on comprehensive pension reform. Why? Because House Democrats have offered no comprehensive pension reform plan. <u>For more than a year, they have clamored for legislative action on the issue, yet to this day they've proposed no comprehensive solution for solving America's pension crisis</u>.

House Democrats' Comprehensive Pension Reform Plan

To make matters worse, when the Committee voted on June 30, 2005 to approve the comprehensive *Pension Protection Act*, Committee Democrats took a pass and voted "present." On an issue vital to workers, retirees, and taxpayers, House Democrats actually chose not to cast a vote for or against the proposal.

In the end, the Democrats simply became spectators and sat idly by while Committee Republicans passed the most comprehensive set of pension reforms in a generation on behalf of American workers, retirees, and taxpayers. If Democrats truly are concerned about the pension security of American workers, they would work in a bipartisan manner to develop solutions rather than put up roadblocks and vote 'present' on an issue so critical millions of Americans.

Part Three: Exercising Fiscal Responsibility for Families & Taxpayers

The Republican-led Congress has taken strides this year in its efforts to reduce spending and eliminate funding for programs that are inefficient and unnecessary. For example, as part of the appropriations process, House Republicans have thus far zeroed out funding for 98 federal programs. This stands in stark contrast to efforts by Democrats, who stand ready to spend more taxpayer money at every opportunity. In fact, over the last three years Democrats have attempted to bust the discretionary budget in the appropriations process by more than $60 billion. The budget reconciliation process is yet one more example of Republicans' efforts to reduce wasteful spending and make federal programs more effective and efficient on behalf of American taxpayers.

Committee Leaders Introduce Bill to Help Offset Hurricane Rebuilding & Recovery Efforts

On October 7, 2005 Education & the Workforce Committee Chairman John Boehner (R-OH), along with other Committee Republicans, introduced the *Setting Priorities in Spending Act* (H.R. 4018) to repeal and eliminate 14 federal programs that have proven inefficient, duplicative, or simply unnecessary. Each of these programs targeted for elimination has continued to be funded by Congress in recent years, despite their questionable value. Congress should cut federal spending to help offset the ongoing hurricane recovery and rebuilding effort, and these programs cost taxpayers approximately $247 million last year alone.

The bill supports the efforts of House Republicans and appropriators to cut discretionary spending as part of the Labor/HHS/Education appropriations bill. The House passed its version of the appropriations bill on June 10, 2005, and it eliminated funding for each of the 14 programs targeted for repeal in the *Setting Priorities in Spending Act*.

Boehner was joined in introducing the bill by Employer-Employee Relations Subcommittee Chairman Sam Johnson (R-TX), and Committee members John Kline (R-MN), Kenny Marchant (R-TX), and Virginia Foxx (R-NC). Additional cosponsors include Rep. Tom DeLay (R-TX), Majority Whip Roy Blunt (R-MO), Republican Policy Committee Chairman John Shadegg (R-AZ), and Republican Study Committee Chairman Mike Pence (R-IN), among others. Specifically, the bill repeals the following education programs:

- **Arts in Education:** This program has a limited impact in integrating arts into the school curriculum, and arts education may be funded through other authorities. A large portion of the program's funding never reaches local communities and is instead diverted to national organizations.

- **Community Technology Centers:** These centers have a limited impact and funding for similar activities is available through other federal agencies, such as the Department of Housing & Urban Development.

- **Early Learning Opportunities Act:** This program is unnecessary because it duplicates the efforts of multiple other federal programs.

- **Exchanges with Historic Whaling and Trading Partners:** This program has a very limited reach, serving only Alaska Natives, Native Hawaiians, and children and families in Massachusetts. Funds are not directed to schools or districts, but instead go to earmarked entities in Massachusetts, Alaska and Hawaii.

- **Foreign Language Assistance:** There is also little evidence that activities funded through this program result in improved outcomes for students. These activities may be supported by larger, more flexible Elementary and Secondary Education Act programs, such as Improving Teacher Quality State Grants and State Grants for Innovative Programs.

- **Literacy Programs for Prisoners:** This program is unnecessary because funding provided through other programs such as vocational and technical education can be used to provide educational opportunities for prisoners.

- **Occupational & Employment Information:** This program provides information and technical assistance that can be carried out by states under the Perkins Act.

- **Parental Information & Resource Centers:** This program is unnecessary and duplicative because other ESEA programs, such as Title I grants, fund parent education and family involvement activities and these activities are a specifically authorized use of funds under ESEA State Grants for Innovative Programs. Local school districts also have the ability to consolidate certain federal funds to carry out parent education programs.

- **Ready to Learn TV:** The activities supported by this program, including the development and distribution of educational video and related materials, can be carried out more effectively and efficiently by the private sector.

- **Ready to Teach:** State Grants for Innovative Programs and Improving Teacher Quality State Grants provide ample resources for the activities intended under this program.

- **Star Schools:** These distance education projects can be completed through alternate programs such as State Grants for Innovative Programs and Improving Teacher Quality State Grants.

- **State Grants for Incarcerated Youth:** This program has proven of limited value in improving the functional literacy of incarcerated youth.

- **Tech-Prep Demonstration:** The *Vocational and Technical Education for the Future Act* (H.R. 366), approved overwhelmingly by the House in May, eliminates the separate funding stream for this program and incorporates the activities into the broader goals of a more streamlined vocational and technical education program.

- **Women's Educational Equity:** Activities promoting educational equity for girls and women may be supported through larger, more flexible programs like ESEA State Grants for Innovative Programs. In addition, because girls consistently outperform boys on standardized testing, the program is not accurately addressing the existing need to improve student achievement and close achievement gaps.

Analysis and Conclusion

The House Education & the Workforce Committee has undertaken a bold agenda for reform in the last four years, working to improve education from early childhood programs under Head Start to helping students pursue a college education under the Higher Education Act, as well as expanding access to health care and strengthening retirement security in a changing economy.

However, Congress's commitment to reform should not be measured by how much money is thrown at each and every problem facing the country. Instead, success should be judged on whether results are achieved on behalf of American taxpayers. There is a bigger picture that cannot be ignored, and that's why Congress must make the tough choices and support a responsible budget that demonstrates its resolve to rein in federal spending.

Through the reconciliation process, the Education & the Workforce Committee has put forth proposals to make federal programs more efficient and more effective on behalf of students, families, workers, retirees, and American taxpayers. On higher education, the Committee's reforms will help expand college access for low- and middle-income students while simultaneously generating savings for taxpayers by eliminating program waste and inefficiency, trimming excess lender subsidies, and placing the aid programs on a more stable financial foundation to ensure their long-term viability and success for future generations of American students. On pension security, the Committee's proposal will provide the PBGC with additional resources to help maintain its commitment to meeting the needs of workers and retirees who rely on the agency for their pension benefits.

The budget is about setting priorities, showing leadership, and demonstrating a clear, bold vision. The Committee has helped produce a responsible budget on behalf of American taxpayers, even while achieving its policy goals of strengthening pension security and expanding college access for low- and middle-income students.